

SECTION 10

OFFER IN COMPROMISE (OIC)

Is an Offer in Compromise Right for You?

Should the IRS determine that a taxpayer is unable to set up an installment agreement, and has exhausted the search for other payment arrangements, the last option would be to file an Offer in Compromise (OIC). The objective of the OIC program is to accept a compromise when it is in the best interest of both the taxpayer and the government, and promotes voluntary compliance with all future payment and filing requirements. Refer to the [IRS Policy Statement P-5-100](#) for the complete OIC policy statement.

In order to be considered for an OIC, a taxpayer must have met all of the following requirements:

- Used the most current versions of [Form 656, Offer in Compromise](#), and [Forms 433-A](#) and [433-B, Collection Information Statements](#). The most current versions are dated May 2001;
- Submitted the \$150 application fee, or [Form 656-A, Income Certification for Offer in Compromise Application Fee](#), with the Form 656;
- Filed all required federal tax returns;
- Filed and paid any required employment tax returns on time for the two quarters prior to filing the OIC, and is current with deposits for the quarter in which the Offer in Compromise was submitted; and
- Is not a debtor in a bankruptcy case.

What Taxpayers Should Know About Filing an OIC

Application Fee Required for OIC

All taxpayers who submit a Form 656, *Offer in Compromise*, postmarked on or after November 1, 2003, must pay a \$150 application fee, except in two instances:

- The OIC is submitted based solely on “doubt as to liability” or The taxpayer’s total monthly income falls at or below income levels based on the Department of Health and Human Services (DHHS) poverty guidelines. Learn more information about the [OIC application fee](#).

Statute of Limitations for Collection is Suspended

The statute of limitations for collection of a tax debt is suspended while an OIC is “pending,” or being reviewed. The Offer in Compromise is pending starting with the date an authorized IRS employee determines the Form 656, *Offer in Compromise*, can be processed. The OIC remains pending until an authorized IRS employee accepts, rejects, returns, or acknowledges withdrawal of the offer in writing. If a taxpayer appeals an OIC that was rejected, the IRS will continue to treat the OIC as pending until the Appeals Office accepts or rejects the OIC in writing.

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Taxpayers Must File and Pay Taxes - In order to avoid defaulting an OIC once it is accepted by the IRS, taxpayers must remain in compliance in the filing and payment of all required taxes for a period of five years, or until the offered amount is paid in full, whichever is longer. Failure to comply with these conditions will result in the default of the OIC and the reinstatement of the tax liability.

Federal Tax Liens are not Released - If there is a Notice of Federal Tax Lien on record prior to the OIC being submitted, the lien is not released until the terms of the OIC are satisfied, or until the liability is paid, whichever comes first.

OIC will affect refunds, installment agreements, and levies - Read the [contractual terms](#) that must be met when applying for an OIC.

Next, learn how to [File an Offer in Compromise](#).

Related Resources

- [What is an Offer in Compromise?](#)
- [It's Important to Pay Taxes in Full](#)
- [Installment Agreement](#)
- [Consumer Alert - Check Carefully Before Applying for Offers in Compromise](#)
- [Notice of Federal Tax Lien](#)
- [OIC Application Fee](#)